

Review

Nation and/or Economics

The initialing of the Vienna agreement on succession did away with a prejudice that was smoldering behind the ignorant populism of most political factors of the former SFRY. According to this prejudice since the second half of the 19th century the West has been developing towards national absolutism and the East towards imperialistic autocracy. Raising itself to the level of legality, this prejudice made it possible to simplify the complex problems post-communist communities were faced with in their transition towards democracy into the salutary formula: state = nation. This simplification does not always focus on manipulation by the political elite and its essential ignorance, but rather on the enthusiasm it spreads among mass participants so as to make it easier for them to bear the traumas of change. This is crucial because of the subjective feeling of disenchantment with social change. Let us recall the words Plato ascribed to Socrates: Every change is evil. The only greater evil is evil itself.

The further away the widely recognized symbols of evil (communism, the Soviet, war, Milosevic) are, the more difficult it is to sustain the dynamics and direction of changes. From the standpoint of motivation, changes become irrelevant for the individual, since they are incomparable. This is perhaps most visible on the example of the correctness of the republican prime minister's eulogy: the international community is fascinated by the youth, expertise and reform-oriented resolve of the ministers. And it goes even beyond this, but the international community is comparing our government's solutions to the solutions in Kazakhstan, Georgia, Armenia, Uzbekistan, while the citizens are comparing them with the authorities' accomplishments in Leskovac, Paracin, Senta and Srbobran. Ironically enough, one could say that the reformist glory of our government so broadly surpasses the borders of our state that very little is left inside the country itself. Of course, the real truth is that both the international community and the citizens are only bearing the consequences of their own prejudice about the presumed slowness, i.e. pace of the changes.

Essentially speaking, we can today say that we are a society that has changed. The widely expected precipitate change of the system is lacking, while there is no majority resolve for "step by step" changes.

In order to understand better the non-existence of majority motivation we will enumerate (according to newspaper articles) some of the accepted successes and failures of the new authorities:

In this issue:

Opinion

Nation and/or Economy

Predrag Marković

Analysis

A Strategy for Reviving the Tradition of Profitable Mining

Dragan M. Kostić

Macroeconomic Review

Branko Radulović

Yugoslavia in the Mirror of Eastern Europe - Lithuania

FRY Basic Economic Indicators	2000	2000 1999	IV 2001	IV 2001 III 2001	IV 2001 IV 2000	I-IV 2001 I-IV 2000
GDP growth in real 1994 prices ^a	...	8.4%	...	...	...	...
Industrial Production	...	10.9%	...	11.3%	-3.9%	-0.7%
Montenegro	...	3.7%	...	6.9%	8.0%	1.5%
Serbia	...	11.4%	...	11.6%	-4.6%	-0.8%
Central Serbia	...	12.0%	...	7.1%	-10.2%	-4.8%
Vojvodina	...	10.1%	...	21.6%	8.5%	8.9%
Average Wage - DM	...	...	...	...	...	...
Serbia	93	-11.2%	151	6.3%	71.9%	72.8%
Unemployment Rate ^b	...	...	29.3%	...	...	...
Montenegro	...	...	39.8%	...	...	...
Serbia	...	...	28.5%	...	...	...
Current account, in USD millions	-1,298	3.2%	...	...	...	...
Trade balance, in USD millions	-1,989	-10.6%	-148	-32.4%	-34.6%	1.7%
Export - USD million	1,713	15.0%	138	-30.1%	3.0%	12.9%
Montenegro	157	31.1%	8	-53.9%	-37.8%	2.5%
Serbia	1,411	13.8%	130	-27.9%	7.2%	14.5%
Import - USD million	3,662	12.6%	287	-31.3%	-20.6%	6.1%
Montenegro	313	-1.0%	3	-59.7%	-94.8%	-73.3%
Serbia	3,035	15.6%	279	-31.4%	-9.4%	14.6%
Monetary supply (M1), end of period, in DIN billion	29.6	60.7%	37.0	6.4%	107.4%	90.6%
Cash	10.3	39.8%	12.4	9.5%	92.6%	74.8%
Deposits	19.3	74.9%	24.7	4.9%	115.7%	99.4%
Real money supply, end of period, in DM million	1,043	-26.7%	1,234	6.4%	85.2%	62.7%
Market interest rate, monthly level	5.84%	37.3%	5.08%	-0.2%	-0.8%	11.0%
Retail prices	...	75.7%	...	8.6%	123.7%	115.8%
Serbia	...	70.0%	...	9.3%	125.3%	115.7%
Cost of living	...	85.6%	...	10.3%	125.2%	114.8%
Serbia	...	79.6%	...	11.3%	129.0%	115.9%
Industrial producer prices	...	106.5%	...	5.0%	116.4%	122.2%
Serbia	...	102.6%	...	5.3%	118.3%	124.1%
Black market exchange rate (din/DM)	25.45	103.2%	30.00	0.0%	30.4%	35.6%

^{a)} Estimates based on information from the Federal Statistics Office.

^{b)} Unemployment rate refers to February.

The changes are indisputable and insufficient

- The payout of blocked hard currency savings to the depositors
- The regular payment of pensions, wages, social transfers, a nominal increase in wages;
- A stable monetary situation;
- The checking of inflation;
- "Non-standard" admission in or return to international economic and political institutions;
- Insufficient disclosure of embezzlement and abuse;
- Insufficient disclosure of dubious activities in the sale of our telephony;
- A single tax rate;
- Liberalization of exports;
- Disclosure of gold theft and the amount gold in Switzerland;
- Rectification of the devastating consequences of the former Public Information Act;
- Restoration of the rights of the Karadjordjevic dynasty;
- Superficial, but present personnel changes;
- "Wise" negotiations with strikers and trade unions;
- Arrest of Slobodan Milosevic;
- Institution of criminal proceedings against perpetrators of criminal acts;
- Efforts to settle the situation in the media;
- Launching proceedings against Interior Ministry officials who were wiretapping citizens;
- The announced presence of priests in army barracks;
- Attempt at reconciling political parties;
- Attempts to preserve Serbia's territorial integrity;
- A wise policy towards the international community and Albanian negotiators;
- Return of the Yugoslav Army to the safety zones;
- Gradually acquiring positions in the region;
- Support of the international community;
- Checking ethnic intolerance;
- Dismissals in the sphere of education;
- Preparations for a reform of the education system;
- Initiation of a resolution for the problems of the white plague, the birth-rate, drugs, the position of the young;
- Continual presence of injustice in the judiciary, police, structures of power, from top to bottom;
- Partial and insufficient personnel innovations and dismissals;
- The insufficiently energetic dealing with law-breakers;
- The closure of the Democratic Opposition of Serbia (DOS) into its own "clans" and groups;
- Non-energetic prevention of various forms of abuse;
- Protection of human rights;
- Increase in prices and taxes;
- Asocial conduct of members of parliament in the work of the Assembly;
- Insufficient measures for improving the situation in prisons;
- Tensions and disputes within DOS;
- The most successful businessmen are still people from the former regime;
- Changes in the education and health care systems are slow, there are no true reforms and solutions;
- Continual tension vis-a-vis trade unions;
- "Strengthening" of the federal state...

What is common to these random newspaper interpretations? Be they characterized as positive or negative, they confirm that the changes are indisputable and insufficient.

This is especially visible in the economy where:

1. Reforms are coordinated from one center;
2. None of the five pitfalls, which the present republican finance minister mentioned in the December issue of this bulletin as the main dangers for the reform, have been avoided;
3. Internal political disputes are bringing into jeopardy the precise continuity of the preconditions for serious economic assistance: an agreement with the IMF, admission in the World bank, agreement on succession, the donors' conference, talks with the Club of Paris, talks with the Club of London, etc.

The indisputable, but insufficient nature of the changes is quite certainly a political problem since it brings to the forefront the non-existence of a majority, which is the dream of every political group. For this reason, the agreement on succession is not facilitating, but rather making more difficult the position of all political forces that would prefer to activate the formula state = nation, for which at least one side of the equation needs to be known. Namely, the definition of the successors' attitude to the FRY does not mean a definition of the FRY itself. (It is actually in this light that one should also view the dilemma of the Truth Commission formed by the FRY president, as to whether its work should be of an investigative or research nature.) Or more precisely, revealed is the problem of the majority identity of both the state and nation. Not only is the FRY closer to the notion of a political modus vivendi than a state (as V.Gligorov explains on the example of Macedonia), but rather the identity of every nation in the officially civil state of the FRY and Serbia is bipolar to say the least (the Hungarians, but also Vojvodina Hungarians; the Serbs, but also Serbians, newcomers, etc.; Bosniaks, but also Muslims, Sandzak people; Montenegrins, but also Serbs, Boka people, etc.; Albanians, but also Shiptars, Kosovars, etc. etc. Similar complexities are found in the attempt to define the religion or alphabet as the bearer of a nation's identity.

Therefore, it is realistic to expect that the more difficult road of defining a state through economic and institutional changes (which requires a clear social ideal, a political consensus, precise plan and competencies of a pre-defined elite, and above all a long period for the establishment of a new tradition) will be replaced with a demagogical semblance of a national consensus as a precondition for a state-building decision. This suggests the speedy definition of a majority.

A political solution thus becomes visible to the naked eye. It is sufficient to recognize and rename the sure majority. Since the only sure majority in the FRY is a social one, or more precisely, the majority of the socially dissatisfied, over the following months we will be witnessing a competition of political groupings for imposing their own order in the sequence national=civic=socially vulnerable.

Such an order will determine the groups that will be formed on the political scene and perhaps some future elections as well, but it will not change the fact that the former regime imploded already in the past millennium, and that, for the creation of an efficient state, we still need patience, resoluteness, a precise plan, experts, cooperation in the region etc. And even then, with a lot of luck, we perhaps only stand a chance.

The only sure majority in FRY is the socially dissatisfied

A Strategy for Reviving the Tradition of Profitable Mining

Over the past 166 years of Serbian mining, its development was influenced by numerous events of a political, personnel, educational and economic nature, this having a crucial impact on the intensity and scope of the overall development of mining in this region. Without going into the causes of all these changes in the past, it is evident that the interest of foreign and domestic capital in Serbia's mineral resources always managed to outlive the shorter or longer periods of troubles.

The latest and unfortunately longest such period, was the result of work in conditions of a socialist-self-management system that undermined the main postulates of mining. The crisis culminated during the last ten years, under a regime which knowingly or not, directly and indirectly contributed to the collapse of the entire economic system, and thus of mining as well. Lost in the multitude of paradoxes and anomalies was the most important criterion of business – profit.

Importance of mining for the economy

It is difficult to measure precisely the importance of mining for the economy of a country. Apart from the main impact, there is also a whole series of secondary effects which are very hard to measure in practice. In our conditions this was rendered more difficult by the fact that statistical data referred to business results in the former SFR Yugoslavia (with all the republics at the time), while the latest data refer to the periods of isolation and a war-time economy, in which mining is the most sensitive sector.

For this reason, this study adopts the year 1998 as the most representative, albeit not through indicators of the physical scope of production (since they cannot be correctly evaluated in conditions of semi-isolation), but rather through a tabular review of the share of individual activities directly based on mining in FR Yugoslavia's total foreign trade (as a segment of business which has been evaluated on the world market to a certain degree). This gives rise to the following conclusions:

- it is obvious that as much as a third of total exports (and imports) are based on activities directly linked to mining;
- in view of the extremely unfavorable export/import ratio of power sources (positions 3 and 4) it is clear that the Serbian mining industry possesses such potentials which have managed to establish a balance even in extremely difficult conditions for doing business.

Importance of the development of mining

The development of mining has extremely positive effects on the entire economy. In our conditions of transition, the following advantages are primary:

a. Attractiveness for foreign investments

Foreign investments in mining can be both large and realized in a relatively short period. This offers the possibility of using the capital obtained in such a manner as financial support toward the realization of the process of transition, especially in the most critical – initial period.

b. Stability of business operations

Investments in mining and their upgrading to a higher level contributes to the long-term stability of the entire economic system, since mining affairs are characterized by long duration (which is not the case with other branches of the economy, especially not among producers of consumer goods).

True, the mining industry can experience individual fierce blows, such as a drop in the interest in certain raw materials and various forms of stock market speculation, but generally speaking the period of exploitation – of business operations ranges from 20 up to as much as over 50 years per locality.

c. Employment

The development of mining also leads to new mass employment, due to both the increased scope of production in the existing mines and the opening of new mines.

The range of necessary cadre is broad and is not limited to the mining and geological professions. It includes demand for employees of all professions – machine building, electrical engineering, chemistry, geology, as well as other (primarily economic) professions of all degrees of skill. The role of semi-skilled and unskilled labor is also very high.

d. Construction of industrial plants

It is logical for the development of mining also to initiate the construction of industrial plants at the given localities, mostly for primary processing and the processing of semi-products (also, mostly through foreign investments). This results from the very nature of raw materials, which cannot endure large transport costs in their primary state.

The hitherto insecurity, i.e. the high risk of foreign investments in such industrial facilities here also had a very negative impact on mining itself – since the high costs of the transport of raw materials to the buyer often rendered our deposits economically non-profitable.

e. Development of under-developed areas

Most of the potential future mines are located in underdeveloped areas. In many cases, the opening of new mines in such regions also entails the development of a road network, electric power

Mining Export and Import Relative to Overall Foreign Trade, 1998

Type of activity	Exports (%)	Imports (%)
Coal extraction	0.175	0.094
Coal processing	-	0.143
Oil production	0.182	11.088
Oil derivatives	1.751	3.872
Iron ore	0.003	0.029
Ferrous metallurgy	8.255	2.645
Non-ferrous metal ores	0.091	1.609
Ferrous metals	7.055	0.565
Non-ferrous metal processing	2.707	0.549
Non-metal ores	0.049	0.614
Non-metal processing	1.314	1.661
Metal processing	3.497	2.723
Base chemical industry	6.854	8.512
Stone and sand	0.068	0.295
Construction material	0.289	0.277
Total	32.29	34.676

Source: Yugoslav Statistical Yearbook, 1999

Costs of transportation and finance remain high

Production should incorporate reserves of rare metals

... but economic and geological research has lagged

plants and so on. It is not unusual for the prosperity of an entire region to be linked to the development of a mine.

Conditions for development

However, in order to realize all these advantages, the expansion of mining in our conditions demands both new legal regulations, and the financial and administrative support structure of a developed banking system; a competitive and transparent capital market; and the modernization of existing state administrative services.

A Strategy for profit

Mining quite certainly ranks among those branches of the economy in Serbia with the greatest prospects. Unfortunately, due to inadequate management, most mines are currently working below the minimum of their profitability, and because of inadequate laws and the hitherto official policy, potential investors have not opted for investing in the mining industry. With a series of concrete moves based on an appropriate strategy, mining could swiftly regain the place that belongs to it in the process of Serbia's future development.

a. Legal initiatives

The complete revision of existing legislation is necessary, especially the Law on Mining and the Law on Geological Research. Furthermore, the drawing up of necessary by-laws, whose non-existence (or the poor quality of the existing ones) is obstructing work. A drastic example of this is the procedure for granting concessions.

Also necessary are initiatives for passing totally new laws (ex. a law on the use of geo-thermal resources), as well as adequate harmonization with other new legal solutions in this sphere of the economy (especially the new Privatization Law).

The goal of these activities is to create a regular legal environment and eliminate all the existing anomalies. For example, the fact that certain operating licenses for companies in the sphere of mining and geology are not issued by the ministry of mining, or the problem of the neglect of the basic mining aspect of business activities by the construction material industry.

b. Consistent implementation of the mining economy

On the microeconomic level, it is necessary to insist on the consistent implementation of the mining economy at all stages of the mining process. That is, from the accurate evaluation of the deposit (based on market principles and methods compatible with world standards), through the constant oversight of the effects of the work and adequate use of material, to the appropriate evaluation of the final product.

Special attention should also be paid to the possible expansion of the "assortment of products". As an example of this we have the case of the Trepca mine in Kosovo, where the renewal of production will not be based on the primary lead-zinc ore. Rather production should be shifted to the at least 20 rare metals already demonstrated to exist in sufficient reserves for profitable exploitation.

c. Geological research

The main problem of the realization of geological research lies in the unregulated mechanism of financing. The state must immediately start drawing up a general concept and launch the systematic exploration of ore potentials, for the purpose of creating a national database and making specialized atlases of mineral deposits reserves. Such a job can quite certainly not be realized with the amount of 300,000 German marks intended for all geological research throughout Serbia in the year 2000.

There exist real sources for the financing of such research (from special-purpose taxes to the taxation of the final product) which are well known and only need to be systematically implemented. An additional source of financing must be ensured by new legal regulations through the granting of certain privileges and/or a direct share in the subsequent profit of a foreign or domestic company willing to invest in geological research. This needs to be proportional to the amount of investments and the amount of research done (the level of the risk of investing).

d. Development of the existing mines

It is primarily necessary to make an expert – economic assessment of the current state of each individual entity. It must be done in the spirit of legal reforms, in the case of both mining itself, and the economic system as a whole.

In general, there are two footholds for achieving considerable improvement in the work process itself:

- first, the application of adequate exploitation methods. The long life cycle of a mine requires constant corrections to the existing methodology, based on local, experience-based knowledge and the application of new scientific solutions;
- the second foothold is the process of modernizing mining equipment.

However, prior to modernization, the existing machinery and equipment must be brought into an optimal state, which is often far below potential existing capacities (due to the long-standing lack of spare parts, and frequently also because of inadequate handling).

e. Consolidation of large systems

It is logical that special attention must be devoted to the consolidation of the work of large mining systems.

Central to all these points is that the mining industry's present poor financial situation does not result from inadequate or poor ore deposits, but rather exclusively from poor business practices. A detailed explanation of all the external and internal causes of such business would require a separate analysis.

Consolidation must begin with a revision of mutual relations within the systems themselves, to the working out of a mechanism for determining wages. The Program of activities for emerging from the crisis must be clear and comprehensive.

The gravity of the existing problems can be observed on the concrete example of the RTB Bor copper mine:

- the existence of poorly regulated mutual relations between exploitation on the one hand, and copper metallurgy and its own processing industry on the other;
- extremely large debts as a result of uncollected interest, the cause of which is difficult to define;
- drop in production resulting in an even greater decrease in research and preparatory works, thereby closing the possibilities for emerging from the crisis;
- various unfulfilled obligations and the creation of losses even in profitable jobs, such as copper processing services;
- the employees' wages are inadequate to the results achieved by corresponding production wholes (units).

Furthermore, one can not forget two large complexes in Kosovo: Trepca and Kosovo lignites, which must be actively monitored within the limits of the existing political frameworks.

f. Opening of new deposits

Within the new concept of geological research, and on the basis of the already existing knowledge, there exist realistic possibilities for the exploitation of new deposits (from coal deposits, through large deposits of boron ore and cement marls, to smaller but extremely profitable deposits, such as fiber basalt).

In the sphere of power sources, the increasingly poor oil deposits should be exploited as economically as possible, and it is especially necessary to consider the significant potential of geothermal energy. Studies indicate that several regions can satisfy the economic criteria for the use of geo-thermal energy. On the territory of Serbia is one of the richest research drills in all Europe, producing 61 lit/sec of geo-thermal water at a natural outpour with a temperature of 80 degrees Centigrade. This highly ecological power source has an extremely broad range of utility, from the construction of greenhouses and fish farms to the direct substitution of oil.

The magnitude of thermal energy in hydro-geo-thermal systems at a depth of three kilometers is almost twice the magnitude of the equivalent thermal energy of all the deposits of all types of coal. According to certain estimates, it could be possible to achieve a level of geo-thermal production that could substitute for 500,000 tons of liquid fuel per year.

The largest problem in regard to the opening of new deposits is the lack of adequate documentation. The design documentation is either inadequately done (unadjusted to market aspects), or is still at the level of ideas (due to the chronic lack of financiers in this stage).

g. Reduction of investment risks

The main problem for both foreign and domestic investments in the mining industry is the still high political risk. By the nature of the long time-horizon for the business, these investments are especially sensitive to the stability of the political system.

New legal regulations and a stable fiscal system can confine the risks to within bearable limits. A special contribution to the reduction of risks is also the speedy resolution of outstanding conflicts. A negative example is the impermissibly long period of dispute between the Canadian partners and the Serbian Electric Power Company over the research of boron ore deposits (quite certainly also contributed to by the unnatural engagement of the state electric power company in such jobs).

h. Higher level of expertise

The management of the existing mining companies must gradually be brought to an adequate level. This can be achieved only through consistent respect for the principle of "assessment through achieved results". Viewed on a long-term basis, the problem must be tackled immediately in institutions of higher education (changes should begin already within the ongoing reform of the University).

A special problem is faced by scientific and engineering institutions dealing with mining. The forced transformation from a budget-type to a semi-market method of doing business was very hard for them, so that they are now facing the problem of daily survival.

Any kind of partial requests in this sphere are sentenced to failure. Only the revival of the mining industry on the whole will make possible a proper distribution of jobs and offer those who are capable a chance to recover. Until then, the state must take upon itself financially to support these institutions, and also to help them survive. Their reserve of professional expertise must be sustained in this transitional phase, precisely because of its necessity for sustaining the entire process of regeneration.

i. Safety in mines and personal protection

Safety in our mines is at the lowest acceptable level. Mostly for economic reasons (a long period of poverty), the basic measures of protection are not applied in the full scope envisaged by legal regulations pertaining to these spheres (which is harmonized with international conventions and recommendations, and is, therefore, additionally binding).

The personal protection of miners is often even below the allowed level. It is logical that funds for the maintenance of an optimal system of protection can be ensured only by a profitable mining company. However, the current situation is so alarming that it can not wait for the realization of the process of consolidating business operations. Rather, the following additional measures must urgently be undertaken:

- foreign donations (miners' solidarity),
- re-channeling from other funds of the company itself for these purposes,
- assistance from the state, no matter how unpopular this may be.

Only in conditions where every employee in the mining company (regardless of his place in the hierarchy) knows that the full degree of his protection has been ensured can high performance and – profit be achieved.

Poor business, not poor deposits is the root of the trouble

... and political risk remains high

Mine safety is at the lowest acceptable level

MACROECONOMIC REVIEW

Prices and Wages

Due in large part to a correction of tax rates and the further elimination of price disparities, April retail price growth in Serbia was 9.3%. As mentioned in the previous issue, the 9.5% growth of prices for industrial products (the prices of industrial food products were up by 10.3%, and of industrial non-food products by 10.2%) had the largest impact on overall retail price growth in April. The prices of agricultural products also registered a 6.0% rise. The growth of prices measured by consumer price in Serbia was 11.3%, while the index of producer prices was 105.3. The growth of producer prices will reflect on other indicators as well

over the following months. According to expectations, monthly inflation in May will register at 4%. During the first four months of the calendar year, the inflation rate measured by retail prices in Serbia was 17.7%, while the inclusion of the expected inflation in May would bring it up to around 22%.

The net (average) wage in Serbia for April (4,531 din.) increased nominally by 6.3% month-on-month. Expressed in German marks, April wages were 151 DEM, which is 4.3% higher than in March 2001. The real purchasing power of the average wage in April (nominal wages deflated by the consumer price index) fell by 4.5%. Relative to the same month last year (expressed in DEM), the average wage is up by 71.9%. The wage average for the first four months of this year, rela-

tive to the same period last year, registered a 72.8% increase.

Following high growth in the population's money earnings in March, earnings expanded by an additional 3.6% in April. The earnings of the population of Serbia in April were 40.4 billion dinars, 8.9 billion dinars of which were net wages, and 6.1 billion were pensions. The largest portion of earnings originates from sold products and services. The population's overall expenditures were 22.6 billion dinars, 2 billion dinars of which were taxes and contributions.

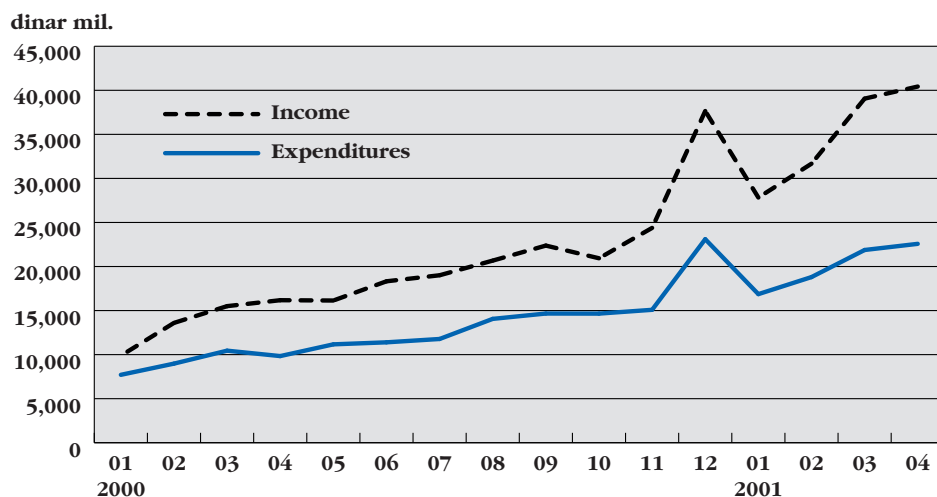
Output

April marked by differing indicators on industrial production. While industrial output in the FRY in April 2001 dropped by 10.0% month-on-month (in Montenegro it was down by 20.1%, and in Serbia by 9.2% - in Central Serbia 6.3%, in Vojvodina 14.9%), the deseasonalized index for April shows 4.8% growth relative to March. Industrial output in the FRY in April 2001 fell 3.3% relative to the same month last year, when the same seasonal factors were evident. Output in Montenegro was down by 9.1%, and in Serbia by 2.9%. The drop of the output in Central Serbia was 5.0%, while the output was up in Vojvodina 1.8%.

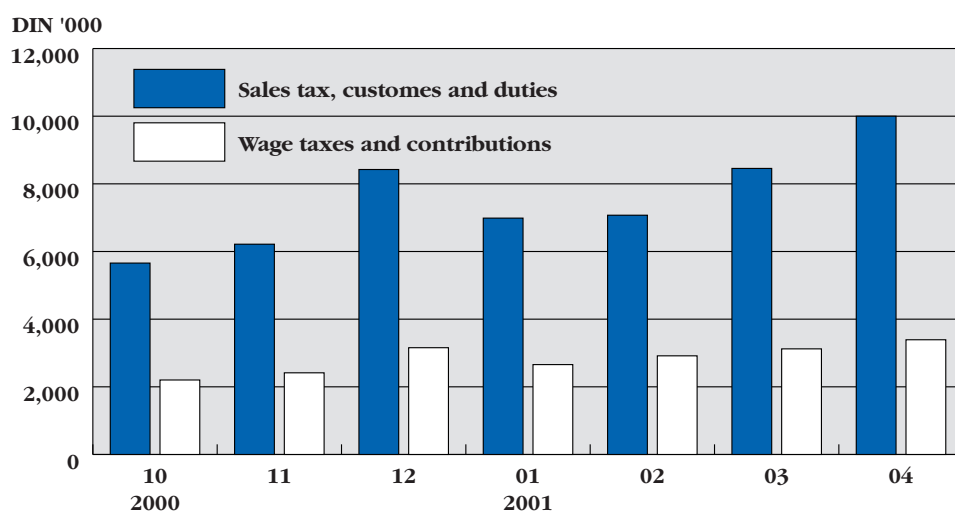
In 19 sectors output fell compared to the same month last year - from 47.8% (the production of office and calculation machines) to 3.2% (the manufacture of products from other minerals), but growth was registered in other sectors, ranging between 138.4% (the production of coke and oil derivatives) to 3.3% (the production of textile yarn and fabrics).

Industrial output in the FRY in the January-April 2001 period was down by 1.2% relative to the same period last year. The drop registered in Montenegro was 0.3%, and in Serbia 1.3%. Output in Central Serbia fell by 4.7%, but it increased in Vojvodina by 7.1%. In 15 sectors, output dropped - from 44.3% (extraction of metal ore) to 0.6% (production of other machines

Income and Expenditures of the Population



Corporate Tax Expenditures



and devices), while it increased in 13 sectors – from 60.7% (the production of coke and oil derivatives) to 1.3% (the production of cellulose and paper, and paper processing).

Foreign trade

Exports and imports registered a considerable drop. The leveling of these figures is to be expected over the following months, but it is extremely important to observe the trends within the structure of imports and overall exports as a sign of a more permanent recovery of industrial output.

In April, the FRY exported goods worth USD 138 million and imported goods valued at USD 237 million, thus achieving a foreign trade deficit of USD 148 million. Exports in April fell by 30.1% relative to March 2001, and imports fell by 31.3%. The foreign trade deficit in April relative to March 2001 was down 32.4%. Observed in relation to April 2000, Yugoslav exports increased by 3.0%, while imports dropped by 20.6%. The deficit relative to April 2000 was reduced by 34.6%. Average exports in the first 4 months of 2001, compared to the average for the first 4 months of 2000, increased by 12.9%, while imports were up by 6.1%.

In April, Serbia exported goods worth USD 130 million and achieved a USD 149 million foreign trade deficit. Compared to March 2001, exports registered a 27.9% drop, and imports fell by 31.4%. Observed in relation to April 2000, exports were up by 7.2%, while imports dropped by 9.4%. Average exports in the first 4 months of 2001, relative to the average for the first 4 months of 2000, registered a rise by 14.5%, and imports by 14.6%.

Serbia's main partners in the first 4 months of 2001 were: German (USD 73.1 million), Italy, (USD 90.6 million), Macedonia (USD 51.2 million) and Bosnia-Herzegovina (USD 67.6 million). For imports, its main partners were: Germany (USD 174.1 million), Bulgaria (USD 82.9 million), Italy (USD 121.2 million), Russia (USD 187.0 million).

The largest product groups in Serbia's overall exports for April were: tires for passenger vehicles (4.5%), raspberries (3.7%), airplanes (3.8%) and refined copper (2.3%). The largest product groups in overall imports to Serbia in April were: oil (5.2%), electricity (4.5%) and natural gas (4.5%).

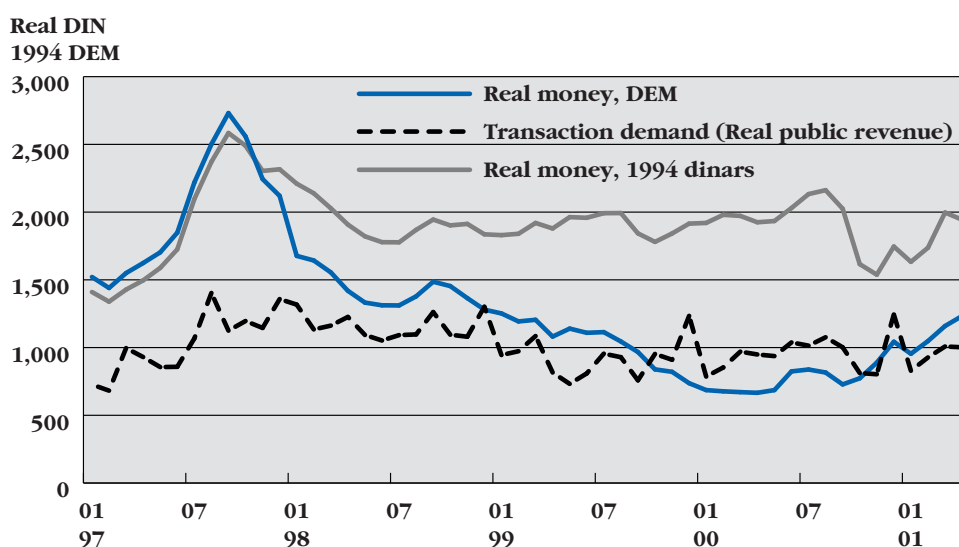
Money, Public Revenues and Expenditures

At the end of April, the M1 money aggregate was 37.0 billion dinars, registering a rise of 6.4%. This trend continued in May, so that the level of 40.6 billion dinars was reached at the end of the month. The share of cash at the end of May was 12 billion dinars, i.e. 29.5%. Last September, this ratio was 39%. The remonetization and restoration of faith in the dinar along with the changed structure of the money aggregate have had a favorable effect on the fiscus. The expressed real money offer and the real money demand (approximated by the collection of public revenues) have registered a rise since the beginning of the year. Compared to the beginning of the year, the domestic currency registered a slight nominal depreciation, but, as mentioned in previous issues, its real appreciation continues. The explanation for the current lack of pressure on the dinar's exchange rate can also be seen on the graph. The size of the depreciation in the previous month and the remonetization process are still of exceptional importance. Dinars are still issued practically only as a result of hard currency transactions. Net domestic assets in March were 34.4 billion dinars and registered a drop in April when they were worth 33.5 billion dinars. This money aggregate is important for the purpose of following the schedule of the stand-by arrangement with the International Monetary Fund.

The gross collection of public revenues in April totaled to 21.52 billion dinars, of which budgetary revenues were 14.2 billion dinars. The republican budget collected 8.4 billion dinars, i.e. 56% of overall budgetary revenues. The federal budget collected 3.3 billion dinars, while the budgets of municipalities and towns realized 2.3 billion dinars.

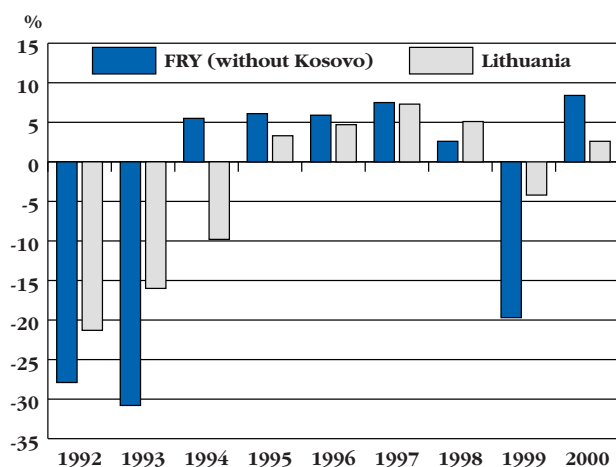
Corporate entities registered much higher expenses resulting from fiscal obligations. Sales taxes, customs and duties were paid in the amount of 10 million dinars, relative to 8.4 billion in March, and 7 billion in each of the first two months of this year.

Real Money and Transaction Demand

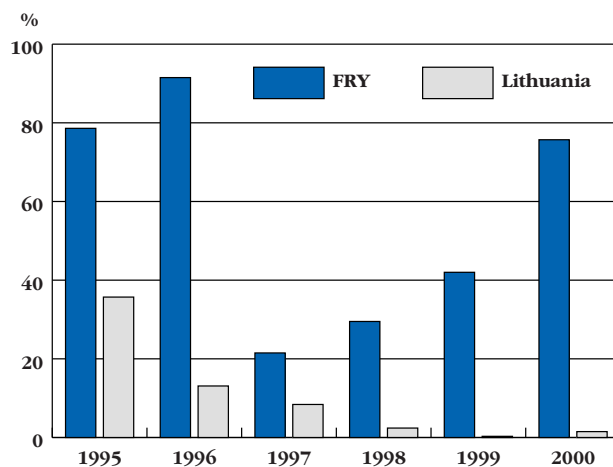


Yugoslavia in the mirror of Eastern Europe

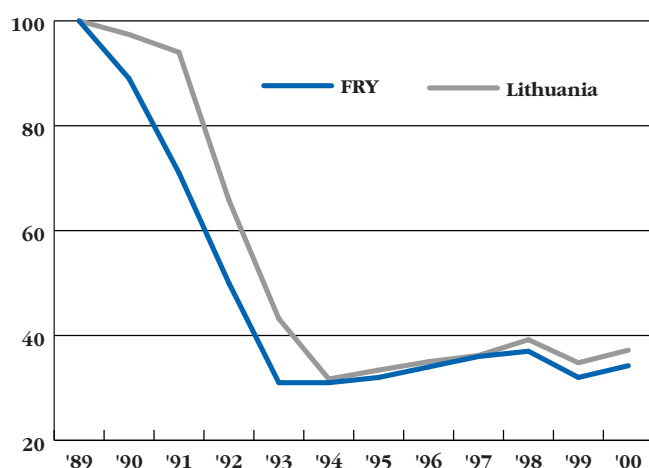
GDP per capita



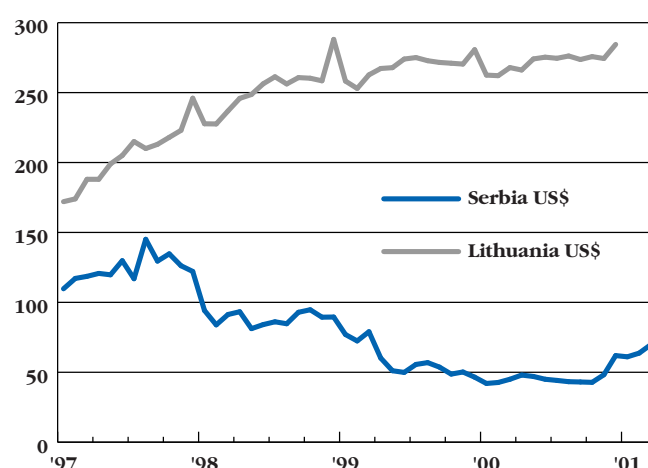
Annual Inflation - retail prices



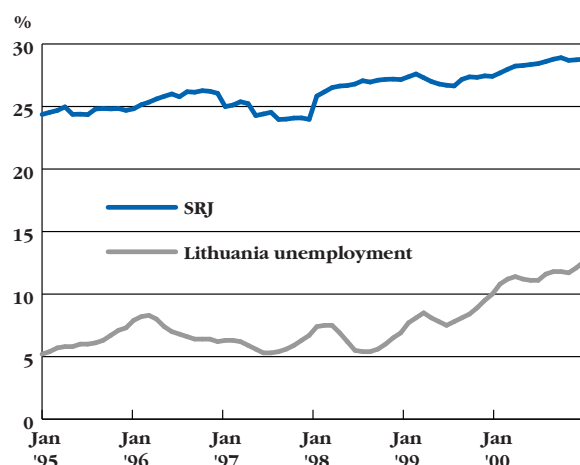
Industrial Production 1989 = 100



Wages



Unemployment



Export

